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U.S. Department of Agriculture
Office of the Secretary

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THE WORLD FOOD OUTLOOK AND ITS SIGNIFICANCE FOR THE U.S. MIDWEST

Events since 1972 have clearly demonstrated the close connection between our agricultural economy and world food conditions--and the advantages and disadvantages of the relationship.

The 35-million-ton drop in world grain production in 1972 was an unprecedented supply disruption. That shortfall, rapid economic growth in some parts of the world, and monetary realignments combined to trigger a tremendous upsurge in foreign demand for our farm commodities. World grain production rose in 1973, but not enough to significantly rebuild stocks, and the foreign demand continued to accelerate. In 1974, weather once again caused a shortfall in world food output, setting off a fear of long-term world food shortages and famine for people in many developing countries.

These worldwide conditions have helped push the value of U.S. farm exports up from $8.1 billion in FY 1972 to $12.9 billion in FY 1973 and $21.3 billion in FY 1974. Farm export values for the current fiscal year will reach $22 billion, the highest in history.

Domestically, in the last two years, we have witnessed shortages of beef in the supermarkets, $6 wheat, soybeans that exceeded $12 on the Chicago futures, food price increases of 14-1/2 percent from 1972 to 1973 and another 14-1/2 percent from 1973 to 1974. Also, in 1973, we experienced a decrease in per capita food consumption for the first time in the United States since 1965. These were extraordinary events for the U.S. food and fiber system, happening along with an equally

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Address by Don Paarlberg, Director of Agricultural Economics, U.S. Department of Agriculture, at the Conference on World Food Outlook and Its Significance for St. Louis and the Midwest, St. Louis, Missouri, April 28, 1975, 10:00 a.m.

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extraordinary combination of international circumstances involving changes in currency values, short grain crops and unprecedented purchases on the world grain market by the non-market oriented Soviet Union and the People's Republic of China.

Now, after two years of exceptional activity in our agricultural economy and in the world food economy, we are facing an adjustment period. Net farm income in the United States, after reaching an all-time high of $32.4 billion in 1973, fell about 15 percent in 1974, when inflation and high energy prices began to affect production costs. Livestock producers were especially vulnerable because their costs for feed were also up.

High production costs will continue this year. Moreover, farm commodity prices have been weakening over the past few months because of expectations of good 1975 crops. Between October and March the U.S. export price of wheat at Gulf ports dropped from $5.23 to $3.96 a bushel, corn from $3.85 to $3.13, and soybeans from $8.56 to $5.89.

When the termination of this adjustment period will fully materialize--this year, or next year, or the year after--will, of course, depend largely on weather conditions and on supply and demand developments, both here and abroad. Even taking account of the uncertainties concerning 1975 crop output, realized net farm income in 1975 is likely to be down from 1974.

U.S. Farm Exports and World Food Supplies

Agricultural exports will continue to be crucial not only to our farm economy and our national economy, but also to importing countries. World food demand will continue to increase, stimulated both by continued growth in income and world population growth at the rate of 70 million people a

year. Our farm commodities will continue to meet real food needs in many places, particularly in developing countries, where over 80 percent of the population increase is occurring. The United States exported about 45 percent of the world's wheat traded in 1972 and in 1973. In feedgrains, 56 percent of the total imports came from the United States. We export a large percentage of the world's total rice imports--about 25 percent, more than any other exporter. This reflects both unusual production shortfalls and a growing dependence of many countries, particularly developing countries, on imports.

But this is not to suggest that our farm exports and our capacity to produce is the answer to long-run world food needs. If the world is to have adequate and stable supplies of food, it is essential that the developing countries in particular make substantial progress in their own food production and in cutting back population growth.

The conditions of the past two years have illustrated all too clearly the difficulties that arise when there are short supplies of agricultural products for export. When there are short export supplies, and yet a long-run pattern of dependency, there are bound to be upheavals in the food economy. This could be the case when there are unusual weather adversities--for when grain yields drop because of bad weather in one part of the world, there is no guarantee that there will be offsetting food yields in other regions.

The United States is committed to helping the developing countries find the proper combination of techniques and policies to substantially improve their food production and distribution systems. We are also committed to providing food aid shipments to meet emergency needs and to help people seriously threatened by malnutrition.

These commitments and our efforts to continue expanding our commercial agricultural export business can operate side by side. As economic growth around the world recovers, food expenditures are expected to increase, and consumers are likely to want more animal protein and more variety in their diets.

What does the future hold for American agriculture? What does it mean for the Midwest in particular which supplies over 50 percent of U.S. farm exports? The Department of Agriculture does not have all the answers to these questions, but we can provide some useful information that will help in evaluations.

Historical and Current Perspectives

It may be helpful to review what major changes have occurred in American agriculture in the last fifty years, and how the Midwest's role has developed.

Demand for U.S. agricultural products has undergone major changes since the 1920's. In the pre-war period of 1925-40, the value of cotton and tobacco accounted for 55 to 60 percent of our farm exports, while feed grains and soybeans made up less than 5 percent. By 1970-74, cotton and tobacco's share had fallen to about 11 percent and that of feed grains and soybeans had increased to 55 percent. During this time period, food grain exports (wheat, wheat flour, and rice) increased from about 10 to 21 percent of the total.

Exports of feed and feed grains rose from less than 5 percent of total exports in 1925-32 to 44 percent in 1973 and 1974, with over half of the increase occurring after 1955-59. These rapid changes in the commodity composition of U.S. agricultural exports correspond with rapid

expansion in livestock production in Japan and Western Europe in the 1960's and hence growth in demand for feed grains. The large imports of grains in 1972 and 1973 by the USSR, China, and India did not significantly alter this picture.

Midwest Production

These developments provide expectations about the future composition of our agricultural exports and for Midwest export prospects in particular. The growth commodities for U.S. export are feed grains and soybeans; while cotton, tobacco, tallow and hides and skins make up that group of commodities whose exports are growing slowly in absolute value but declining in relative importance. Foods for direct consumption--primarily wheat, rice, fruits and vegetables--have tended to increase in value but hold a rather steady share of our exports over the years.

Nearly one-third of the output of the Nation's farms was exported in fiscal year 1974. It took 96 million, roughly one-third, of the 322 million acres of cropland to produce the fiscal 1974 exports. The foreign market was an outlet for two-thirds of our wheat output (including wheat products); about one-half of our soybeans, rice, and cattle hides; more than two-fifths of our tallow; and more than one-fifth of our country's corn production.

In our non-metropolitan areas, large numbers of farm workers are employed solely for production for the export market. The Midwest provides one-half of total U.S. farm exports, exports that are strategic in maintaining employment in farming, in agribusiness, and in local service industries.

With farm exports from the Midwest averaging $12 billion in fiscal 1974, the effect on the economy--rural and non-rural-- is sizable. The Midwest provided over $3.6 billion of feed grains, $2.7 billion of wheat, and $2.4 billion worth of soybeans for the Nation's export market in fiscal year 1974.

The Midwest's share of the Nation's exports of these three major commodities was roughly three-fourths for feed grains and soybeans, and nearly three-fifths for wheat and flour. Compared with four years ago, the Midwest's percentage share of the Nation's exports of feed grains and soybeans has increased. Growth in shares for the Midwest also occurred for flaxseed, soybean oil, and protein meal.

What do these export developments in the Midwest indicate for the future? They are encouraging if we can judge the future by the just mentioned expansion in the Midwest's export shares of major commodities such as corn and soybeans.

Both corn and soybeans are shipped into markets where competitive conditions largely determine their acceptance. Government export subsidies for these commodities no longer exist. The principle portion of these exports moves under commercial export conditions. If there were fewer trade barriers against them in such leading importing nations as the European Community, their purchases from the United States would likely expand. Fertilizer salesmen, machinery dealers, local elevators, the transportation sector, and farm workers would all feel new strength in demand for their products and services. Thus, trade negotiations enabling further export growth should be of particular benefit to the Midwest.

The productive Midwest is in a strategic position to capitalize on its natural and economic advantages. The Midwest's exports are oriented towards unprocessed raw products which can be produced with great efficiency.

That capacity is illustrated by the contribution made by individual states in the Midwest to the total export value of $21.3 billion in fiscal year 1974 shown below:

State	$ Million	% of FY 74 Sale
North Dakota	842.2	3.9
South Dakota	426.8	2.0
Nebraska	1,030.7	4.8
Kansas	1,569.3	7.3
Missouri	704.5	3.3
Iowa	1,774.3	8.3
Minnesota	1,161.7	5.4
Wisconsin	185.1	0.8
Michigan	294.8	1.4
Illinois	1,938.8	9.1
Indiana	967.4	4.5
Ohio	559.8	2.6
		53.4

Nearly 60 percent of the value of all wheat exports in 1971-74 can be attributed to the Midwest. Over three-fourths of total feed grains, 72 percent of all soybeans and soybean oil, 71 percent of soybean meal, 22 percent of vegetables, 68-1/2 percent of all dairy

exports; 58 percent of meats and meat products came from the Midwest's share of the nation's total exports. By years, this was 48 percent for 1971, 49 percent for 1972, and 54 percent for 1973.

Transportation

Efficiency of transportation in the United States builds efficiency into the competitive position of the United States' exports in world markets. The Midwest is fortunate to have an excellent waterway system to ship its produce out to Gulf ports so effectively. Barges haul a large share of the grain produced within 100 miles of the inland river system and exported from the Gulf. Barge rates, subject to supply-demand conditions, are usually under rail rates.

The Midwest's movements by rail of grain out of the major producing areas to world transportation hubs is done at comparatively low costs. For example, in 1974, a bushel of corn could be transported by rail from Sedalia, Missouri, to the world port of New Orleans for an annual average cost of 40 cents; from Lincoln, Nebraska, to Galveston, Texas, for 51 cents a bushel. Northern ports such as Chicago can easily be reached by rail at rates such as 21 cents per bushel of corn for transport from Decatur, Illinois, to Chicago. Wheat shipments to the Gulf moved by rail at 39 cents a bushel in 1974; soybeans at 44-62 cents a bushel from various areas of the Midwest.

Upon arriving at the port of New Orleans, these grains compete effectively in world markets through low transportation costs to world distribution centers such as Rotterdam and Tokyo. As of April 7, 1975, the American farmer can export wheat to Rotterdam from the Gulf for

$7.25 per long ton in non-U.S. flag ships of 15-30,000 tons, while his South African counterpart would ship to the same location at about $12-$13 per long ton.

Argentina, which exported 14 percent of the value of the world's feed grains in 1973, shipped feed grains at a rate of $14-$16 per long ton to Rotterdam. From the Gulf to Japan, wheat moved at $17.75 per long ton; from Australia at $19.25 per long ton; from Argentina at $19.75 per long ton. Corn rates are generally a little higher. The Midwest farmer also has comparable advantages in transportation cost to markets in the USSR, Eastern Europe, and Asia.

These rates are current, representing a distinctive drop from last year, because tankers which usually move oil are now being used to move grains, setting up a favorable supply and demand condition for space aboard tankers. These rates are expected to be near the bottom now and may rise later on this year, but American farmers can expect to maintain a distinct advantage in cost of transporting their commodities to world markets.

We have faced some serious problems in the last few years in transportation. First, severe boxcar shortages occurred when grain exports increased 50 million tons in 1973. At this time of export expansion, the economy was also growing at a rapid pace and also added pressure to requirements for transport. Since then, the railroads have added 33,000 hopper cars to the railroad fleet. Forty-foot narrow-door boxcars have declined in number from 173,000 in 1973 to 148,000 as of December 26, 1974. This shift from the traditional 2,000-bushel, 40-foot narrow-door boxcars to covered hopper cars that presently haul an average 3,400 bushels has increased the carrying capacity of railroad cars. Covered

hopper cars now account for 70 percent of the capacity of all cars. One problem arises for the Midwest transportation system. The greater capacity hopper cars are too heavy for many branch line rail tracks. To move more grain out of the producing areas more quickly, improved trackage will be needed.

Projections to 1985

The Economic Research Service has projections of the domestic and foreign demand requirements through 1985. Certain assumptions accompanying these ranges are based on three levels of national population growth, various levels of personal disposable income and the demand for farm exports. These projections reflect high demand and low demand situations. They describe not what will happen, but the wide range of possible adjustment paths that could bound the future of American agriculture.

Wheat production is expected to rise from a 1970-72 average of 1.5 billion bushels (the Midwest produced 60 percent of that) to a high of 2.2 billion and a low of 1.7 billion bushels. Exports of wheat could range from 759 million bushels to 1.2 billion bushels in 1985 with exports accounting for 45-53 percent of total production. Recently, ERS has developed even higher projected export possibilities of wheat. Total corn production could be between 5.9 billion bushels and 7.8 billion, up from a 1970-72 average production of 5.1 billion. Coarse grain exports could range from 41 million tons to 56 million tons. Soybeans produced in 1970-72 averaged 1.2 billion bushels and could go to 1.7-2.3 billion bushels by 1985. Soybean exports are projected to range from 950 to 1,125 million bushels by 1985. Even under conditions of low economic growth in the United States, low foreign demand, and small foreign

population growth, the volume of exports and domestic use of these major commodities important to the Midwest would increase substantially.

The U.S. would require between 310 and 368 million harvested acres in 1985 to match the above low and high demand assumptions, respectively. This may be compared to the 297 million harvested acre average for 1970-72 and the 330 million used in 1974. To fulfill their projected share of U.S. production, the 12-state Midwest would require between 185 million and 213 million harvested acres in 1985. This compares to their 171 million in 1970-72 and 197 million in 1974.

The U.S. is currently utilizing more acreage now than would be needed under the 1985 low demand requirement or even under ERS's base-line assumption. But could we meet the high demand requirement if needed? In other words, could the U.S. come up with 38 million and the Midwest 19 million more harvested acres than used in 1974?

The USDA Conservation Needs Inventory of 1967 shows about 264 million acres in the U.S. (81 in the Midwest) of land potentially suitable for regular cultivation that was not then in crops. Due to physical limitations, only about 100 million of these potential acres are considered physically well adapted to regular cultivation and considerable development (clearing trees, draining, leveling, etc.) would have to occur. Much of this is in small scattered plots making it difficult, and currently uneconomical, to incorporate into crop production. And conversion of much of this potential cropland would compete with the forage requirements of the livestock industry, and the lumber requirements of the timber industry. But the potential is there, and with the proper incentive, the U.S. could adequately provide the acreage to fill even the high demand requirements.

Summary of Projections

The above projections indicate both a potential demand and an adequate farm productive capacity in the United States. Farming can remain a viable, growing and productive segment of the United States economy. The readily available supply of natural resources appears adequate and given reasonable increases in farm subsector productivity, only modest increases in the quantity of non-farm produced energy input will be needed to meet projected shifts in the domestic and foreign demand. With purchased imputs becoming a larger share of total inputs, farmers may respond more quickly to rising cost with relatively lower output. Moreover, positive supply response generated by increases in productivity can have a depressing impact on net farm income when facing a demand that is fairly unresponsive to lower prices. Thus, there remains more uncertainty in the level, composition, and utilization of farm output than the above "numbers" might imply.

Policy Issues

I indicated earlier that our agricultural economy is going to have to make some adjustments to the turbulent conditions of the past two years. We see the conditions focused primarily on two fronts. First, the quadrupled price of oil has jarred world economic systems so as to leave the outlook very uncertain. Second, adjustments to changes in the world economic system are being felt in declining farm income.

Immediately after OPEC raised the price of oil in the last quarter of 1973 the Department of Agriculture became very concerned that some of our major overseas markets for agricultural products would face strong balance of payments problems. As a consequence of a "dollar shortage," overseas demand for our farm commodities might level off or even decline.

This was of particular concern since all acreage limitations on the production of major crops had just been lifted for the first time since the early 1950's.

Based on the best available data to us at USDA--regarding petroleum prices and imports and balance of payments projections--we concluded that four major markets were in a weak position. They were Japan, the United Kingdom, France, and Italy. We learned later that there is not much certainty about petroleum prices, but these four countries are nevertheless the ones most often mentioned as facing balance of payments problems due in large part to higher oil prices.

Despite the balance of payments problems of these and many developing countries, and sluggish economic activity around the world, the value of U.S. farm exports is expected to hit record-breaking $22 billion--up slightly from the previous fiscal year. But the volume of these exports may be down 10 percent.

In the face of these economic difficulties, why is our export value increasing this year? These gains are occurring despite a $1 billion decline to the centrally planned economies of the USSR and the PRC. U.S. agricultural exports to OPEC are expected to total $1.8 billion--up 70 percent over the fiscal 1974 level.

Most of the adjustment to higher oil prices took place through capital accounts of nations. The Less Developed Countries borrowed $922 million from the IMF's oil facility and a little over one and a half billion from its regular credit facility, more than $6.4 billion from the Eurocurrency market, and a considerable amount from direct and indirect loans and credits by OPEC nations. Thus they managed fairly well the first year.

U.S. farm exports to developed nations are expected to total $12 billion, about the same as in fiscal 1974. As with the developing nations, the adjustment to higher oil prices took place to a large extent through the capital accounts with $1.1 billion borrowed from the IMF's oil facility and $1.8 billion from its regular credit facility, more than $18.6 billion from the Eurocurrency market, and more than $12 billion from investment or credits from OPEC nations.

In total the oil importing world incurred a current account deficit with OPEC of about $60 billion. It required, however, considerable effort and cooperation among oil importing countries and between these countries and OPEC. Although this deficit had relatively small impact on our farm exports and world trade, the longer term impact may be more significant.

This being the case, attention is now turning increasingly toward the economic slowdown in most developed nations. Already the economic slump is depressing the value of commodities and raw materials entering world trade. As the slump continues, sales abroad at past prices will be more difficult to maintain.

Even to the non-OPEC developing countries, our exports are expected to rise 13 percent in fiscal 1975. This accounts for 32 percent of U.S. farm exports. Assuming the need and desire to import, where did the money come from? In the first place, some of the non-OPEC developing countries are more or less self-sufficient in oil. This includes Malaysia, Mexico, Bolivia, Egypt, Colombia, Tunisia, and several other smaller countries. In total these countries have a population of about 155 million people, or about three-fourths that of the United States.

Furthermore, only little of the increase will come from the P.L. 480 program or from other concessional credit sales programs administered by the U.S. Government. Sales under these programs were down 8 percent in fiscal 1974 to a level of $939 million--the lowest level in two decades, but may total about $1.4 billion in fiscal 1975. Part of the money, but by no means all, came from a drawdown in international reserves. Reserves of the non-OPEC developing countries equaled about $34.1 billion or about $3.8 billion more at the end of 1974 than at the beginning.

To some extent higher export earnings helped pay for oil imports and U.S. farm imports by these countries. Prices of their exports rose on the average about 35 percent in 1973, and they climbed further during the first half of 1974.

The export prices have dropped significantly since mid-1974, however, and further declines are expected as long as there is an economic slowdown in the developed world. Excluding oil exporting countries, exports of the developing countries increased about 42 percent to $95 billion in calendar year 1974. Their imports increased by 51 percent, to about $119 billion.

The volume of U.S. agricultural exports will probably increase by as much as 10 percent in fiscal 1976. This will somewhat offset a probable fall in prices from the fiscal 1975 levels. Value of our exports could be down as much as a fifth. What allocations the world will continue to make to satisfy their needs for energy and for food is uncertain.

The volume demand for U.S. agricultural exports will probably increase about 10 percent over fiscal year 1975. Some of the reasons for this increase are:

Livestock production will probably be maintained in Western Europe and Japan.

Livestock goals in the USSR are expected to remain; although at a possibly lower rate.

Lower prices should stimulate exports.

Recovery from economic stagnation in the major U.S. markets is expected in late 1975 or early 1976.

International monetary system, having adjusted to higher oil prices, should provide enough liquidity for growth in international commerce.

Grains stocks are at a very low level in most countries.

Some of the uncertainty of prices has greatly concerned U.S. legislators. During the past 60 days, prices of wheat, corn and soybeans have fallen precipitously. The Congress sought to increase the target price for wheat from $2.05 to $3.10 a bushel, to raise the target price for corn from $1.38 to $2.25 a bushel, and to raise the target price for cotton from 38 cents to 45 cents a pound. The Congress also sought to set the loan rate for soybeans at $3.94 a bushel. There is no support at present.

As this manuscript is being prepared, the ultimate disposition of this matter has not been resolved. One concern is that an increase in target prices would set up a situation which might greatly increase Government costs when crop production is large. Another concern is that rising loan rates seems, based on past experience, likely to move us back into a position of accumulating large Government stocks and increasing costs.

There is concern that once such target prices or loan rates are raised, they tend to be viewed as long-term minimums, thus making it very difficult to reduce them if that seemed appropriate.

We feel that the direct effect on consumer prices in the next year would be minimal. However, the impact on budget outlays would contribute to overall inflationary pressures.

The prices paid to farmers are affected by stocks policy. We have seen the effects of a quick drawdown in stock levels. Between 1971-72 and 1973-74, end-of-year wheat stocks in the United States dropped from 23.5 to 6.8 million tons. Feed grain stocks fell by 26 million tons in the United States, and the livestock industry suffered serious financial losses.

The surplus grain stocks of the 1960's permitted relative stability in world grain prices and made possible large amounts of food aid. But they were a burden to taxpayers and they led to restrictions on grain production. These surpluses also contributed indirectly to the developing countries' growing dependence on grain imports by permitting postponement of needed agricultural development projects.

It is clear that we need better stock management that would provide both favorable farm prices and income, and reasonable consumer food costs without diminishing either export trade or harming foreign relations.

The United States has agreed that an international reserves program be worked out. It would include provisions covering the location of the stocks and rules governing their purchase and release.

Future market growth is crucial, and trade liberalization is crucial to market growth and to the income of farmers. On March 6, we stopped asking exporters to request prior approval for grain, soybeans, and soybean meal shipments. As soon as possible we will further relax our export monitoring. To provide a watch over U.S. supplies of grains and soybeans, however, the Department will continue to require that exporters report large sales daily and all sales weekly.

In the current round of Multilateral Trade Negotiations among GATT members, we will deal with factors that distort trade patterns and that tend to limit the volume of trade and associated economic activity.

We have seen U.S. agricultural exports grow steadily. The growth has come from increased foreign demand and increased U.S. production. It has been enhanced by the fact that importers can count on the United States to be a dependable supplier of quality products. But we have also had the technology, the financial resources, and the information necessary for tremendously successful market development programs. These efforts should continue.

* * *

I don't wish to convey the impression that the world food crisis is over, or that good crops this year will solve the problems of adequate world food supplies. High prices and limited supplies of food and fertilizer are likely to prevail for the next year or two. The developing countries that rely on imported grain will continue to be the most adversely affected. Poor world crop conditions in 1975 or 1976 could have serious consequences for those countries already experiencing severe food shortages.

In the longer term, more food can be produced per person. The world has the land resources and the technology, and we have seen how responsive food production is to favorable government policies and prices.

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